



# Memorandum

**TO:** Honorable Mayor and City Council  
Redevelopment Agency Board

**FROM:** Del D. Borgsdorf  
Harry S. Mavrogenes

**SUBJECT: PARKING PRIORITIES AND  
PARKING TRIGGERS**

**DATE:** 05/19/04

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Approved

/s/

Date

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## **RECOMMENDATION**

Approve the parking priorities and triggers outlined in this report to be used as the basis to initiate future parking development.

## **BACKGROUND**

In October 2003, the City Council and the Redevelopment Agency Board approved a revised framework for the implementation of short-term and long-term priorities within the Parking Management Plan (PMP). In the short-term, staff was directed to continue monitoring the economic climate, maintain existing reserves in the Parking Fund, and explore options to continue progress on the PMP. Staff was further directed to proceed with the construction of Parking Plus in the CIM project on the 2<sup>nd</sup> and Santa Clara site; and to proceed with design of Parking Plus at the Block 3 site, with a decision on its inclusion to be made no later than September 1, 2004. Staff was also directed to develop economic and parking demand triggers, and financing methods, that would be used to initiate further project design and construction of the approved priorities for review by the Council/Board during the 2004-05 budget process.

The approved short-term (1, 2, and 3) and long-term priorities (4, 5, and 6) are listed below:

1. Parking Plus at the 2<sup>nd</sup> and Santa Clara site (under construction)
2. Parking Plus at the Block 3 site (in design, construction not funded)
3. Site acquisition of the Notre Dame location for future parking facility development
4. Construction of the Notre Dame Parking Garage
5. Site acquisition of the Greyhound location for future parking facility development
6. Construction of the Greyhound Parking Garage

Parking Plus at 2<sup>nd</sup> and Santa Clara is fully funded and under construction as part of the CIM project, with an expected completion date of fall 2005. Parking Plus at Block 3 is being designed, but construction funding was removed from the rebalanced SJRA 2003-04 budget. Priorities three through six above were removed from the Redevelopment Agency's rebalanced 5-Year CIP in the Fall of 2003, and do not have identified funding sources at this time.

## **ANALYSIS**

### **Downtown Economic and Parking Analysis**

As reported in October 2003, the significant changes that required rebalancing of the SJRA budget also necessitated a re-evaluation of the economic and parking activity projections contained in the PMP. This section of the report updates key indicators of economic and parking activity in the Downtown that are important considerations to initiate parking development.

**Office Vacancy Rates** – The office vacancy rate in Downtown San Jose dropped slightly from 23% in the fall of 2003 to 21% in the spring of 2004, according to data published by Ritchie Commercial. This data represents approximately 950,000 square feet of vacant Class “A” office space and 610,000 square feet of vacant Class “B” office space. Class “B” offices are generally more dependant on the public parking system for their parking needs because of their limited on-site parking. Based upon previous parking demand studies, the 610,000 square feet of vacant space represents a temporary reduction in parking demand of 1,500 to 2,000 spaces that are likely to remain unused until the office space is leased.

There are some potential signs that a recovery may be starting based upon the absorption of 90,000 square feet of Class “A” office space since the last report in October 2003. However, discussions with commercial office brokers indicate that the Class “A” market would recover much sooner than the Class “B” market because of the quality of the space, on-site parking, and the competitive leasing costs as compared to Class “B” space. Significant recovery of the Class “B” office market, previously thought to begin in early 2005, will most likely not commence until later in 2005, with an anticipation that it would take approximately another two plus years to reach office occupancy levels above 90% (2007 to 2008).

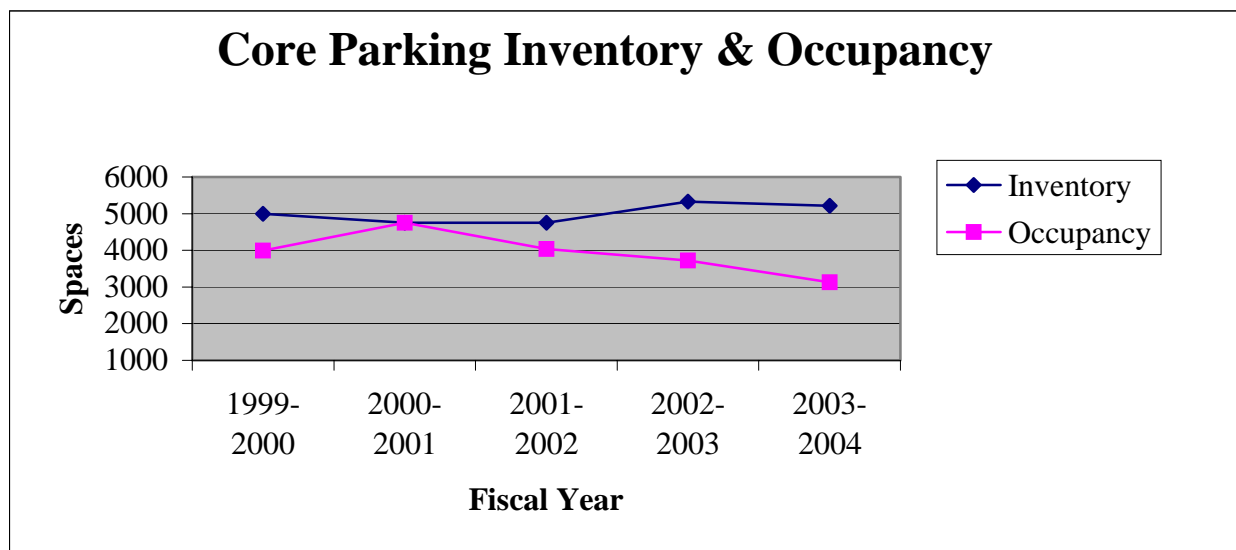
**Current and Projected Parking Demand** – The Parking Management Plan, approved in November 2001, forecasted that changes in short-term (through 2005) and long-term (through 2008) parking demand in Downtown would likely occur as a result of three factors:

1. Existing surface parking lots in Downtown San Jose would be lost to new development
2. New development may not fully meet its parking demand with on-site parking supply, creating additional burdens on the overall Downtown public parking system
3. Parking demand, generated by venues such as the Convention Center, library, theaters and museums, is likely to increase with Downtown growth and increased activity.

The PMP anticipated that in the short-term (by 2005) approximately 3,125 new parking spaces would be needed to meet short-term Downtown growth. This figure is comprised of lost parking spaces due to developments (approximately 2,000 spaces) and additional peak demand that would be generated by Downtown growth (approximately 1,125 spaces). The PMP also identified the need for an additional 1,500 spaces that would be required in off-site peripheral locations to accommodate future office development growth, based upon the parking code revisions recently adopted by City Council. Therefore, it was anticipated that long-term parking demand (by 2008) would total about 4,625 spaces.

Unfortunately, due to the economic downturn since the PMP was approved in 2001, most of the demand increasing factors have not occurred, and as a result projections have been updated in this document to reflect current conditions as described below:

- ❑ Except for the CIM project on the 2<sup>nd</sup> and Santa Clara parking lot, many developments that were already planned to occur on surface lots, have not occurred to date. The next likely loss of surface parking before the end of 2004 is the Market/Balbach surface lot, the site of the interim Convention Center expansion. Later in 2005, planned housing projects at 1<sup>st</sup> and Julian, 1<sup>st</sup> and Basset, and the 2<sup>nd</sup> and St James would eliminate surface parking. The next phase of the CIM project, on the Block 3 surface lot, may also occur in 2005.
- ❑ Opening the 4<sup>th</sup> Street Garage (750 spaces), development of four interim surface parking lots within walking distance of the core (370 spaces), and expansion of on-street parking (100 spaces) have increased the public parking supply since the PMP was approved.
- ❑ The expectation that additional parking demand would be generated by venues such as the convention center, new library, theaters and museums due to Downtown growth has not materialized yet, except for the new library, and given the economic climate, demand remains down. In 2001, the public parking system achieved an occupancy level close to 100% at Downtown core facilities and an occupancy level of approximately 70% at peripheral locations. The core inventory in 2001 was 4,750 spaces. Currently, the core inventory is approximately 5,250 (net increase of 500 spaces) with an average peak occupancy of approximately 60% (about 3,130 occupied). The graph below depicts the core parking inventory and occupancy history by fiscal year:



Based on the changes outlined above, and a delayed economic recovery, it is prudent to adjust the short-term and long-term time frames in the PMP to 2008 and 2011 respectively.

## **Parking Project Priorities and Status**

### **1. Parking Plus at the 2<sup>nd</sup> and Santa Clara Site**

The CIM mixed-use project is under construction, includes 29 Parking Plus spaces, 49 spaces for retail use, and is projected to be complete in the fall of 2005.

### **2. Parking Plus at the Block 3 Site**

The SJRA rebalanced 2003-04 budget removed construction funding for Parking Plus at Block 3. Staff was authorized to continue with design, with a decision on its inclusion to be made no later than September 1, 2004. The CIM mixed-use project at Block 3 consists of condominiums, retail space, and parking. The initial parking plan included 746 total spaces, with 502 dedicated to condominium use, 68 for retail purposes, and 176 Parking Plus spaces.

During the preliminary design process, staff and CIM further reviewed the Parking Plus options for Block 3 and concluded that a second level of Parking Plus, beyond the one level in the original plan is justified. The justification is based upon the following considerations:

- ❑ The loss of heavily used surface parking was a concern in the PMP and one of the main reasons that a parking shortage developed in 2000. Block 3 is currently a 340-space lot.
- ❑ The Block 3 lot is one of the most active lots in Downtown given its location in the historic core, and the level of business activity that is being generated by existing and new businesses nearby. The lot is typically full Thursday, Friday and Saturday evenings. Newer attractions like PF Chang's China Bistro and the Improv Comedy Club, along with existing attractions like the Repertory Theatre, Hawgs, Gordon Biersch, Stratta Grill, and Inca Gardens restaurants continue to generate parking demand at this location, one of the few locations that has weathered the economic downturn reasonably well.
- ❑ Looking into the future, the soon to be expanded Camera Cinemas into the former UA Theater site on 2<sup>nd</sup> Street, and the demands that will be generated by the commercial and retail uses in the CIM development on Block 3 further justify additional Parking Plus spaces. Also, under a Disposition and Development Agreement with Forest City Commercial (owners of the Knight Ridder building at 50 W San Fernando), the SJRA is required to provide 362 parking spaces at Block 3. SJRA is also required to provide market rate replacement parking within a 1,500-foot radius when Block 3 is developed.
- ❑ The adjacent Block 2 surface parking lot ultimately will be developed. Given Block 2's size constraints, this site will most likely not be able to accommodate all its parking needs on-site, thus providing Parking Plus to cover the loss of the lot would be impractical, likely resulting in the current demand on the Block 2 lot shifting to Block 3.

The projected cost of two levels of Parking Plus at Block 3 is \$10.56 million (352 spaces @ \$30,000 per space). The proposed financing would be structured in the following manner:

- ❑ \$10.56 of the \$13 million SJRA/City secured HUD 108 loan would fund the construction.

- ❑ The annual debt service of the 20-year HUD loan is estimated between \$742,000 and \$826,000. A special account would be created to repay the loan. The account would be funded with a \$2 million Brownfields Economic Development Initiative grant that would be received with the HUD loan, net revenues from Block 3 Parking Plus estimated at \$400,000 to \$450,000 under current circumstances (City operation), but may be much higher based on the private operator's assumption annually, and the remaining amount from SJRA budget revenues. The facility would be owned by the SJRA and managed by CIM. The terms are being negotiated with CIM and would be subject to Council/Board approval. The goal of this arrangement is to ensure that the project is operated to ensure full repayment of the HUD loan, and that the facility is managed in a way that integrates parking with the private elements of the project. The goal requires market rate parking, yet allows for inclusion in the City's validation programs, but not free evening and weekend parking.

### **3. Acquisition of Notre Dame Site**

The Notre Dame site was identified as a one of the two top priority sites for the development of a parking structure with approximately 850 parking spaces in the PMP. In October 2003, the Council/Board established land acquisition of the Notre Dame site as the third overall priority, ahead of Greyhound because that site is the preferred site of the Federal Government for their new Federal Court House and office building. The Notre Dame site would also be less costly in terms of acquisition, relocation, and construction. Acquisition would take approximately one year after a decision is made to proceed.

Staff has done some additional planning on acquisition, and the potential use and financial performance of this facility. In fall 2003, staff met with two of the property owners to explain that the site has become the highest priority for a parking structure. A 2002 appraisal estimated the value of the affected private parcels at \$5.2 million.

In terms of its use and potential financial performance, this site is located in an area that currently has sufficient parking supply. The proximity of this site to the HP Pavilion, and the previous intention to relocate monthly parkers from the Market Street Garage due to the likely development of the Mitchell site at that time, made this site a good candidate for a parking facility long-term. An updated look at the site highlights the following:

- ❑ This site would go a long way towards permanently meeting the City's obligation to HP Pavilion Management in terms of parking supply within 1/3<sup>rd</sup> of a mile of HP Pavilion.
- ❑ Other daytime demands, that are being met by existing surface lots in the area, that could be parked in a Notre Dame facility include: the Family Court adjacent to the site, small numbers of monthly parkers from businesses in the area, the obligation to the DeAnza Hotel for 45 spaces for their hotel guests, and minimal amounts of short-term parkers.
- ❑ The Market Street Garage, the City's closest to Notre Dame, has occupancy below 50%.
- ❑ Future potential demands include the Downtown Theatre that is under study. Other sites in the area received a cursory review in terms of their potential development or land use. Little in the way of significant parking demand generators were identified to occur within a timeframe considered meaningful for planning purposes for this facility.

- ❑ Preliminary financial assumptions indicate that this facility would be challenged to meet cost recovery for some time, and would be very reliant on paid evening parking demand.

#### 4. Construction of Notre Dame Garage

Schematic design plans for the Notre Dame Parking Garage were completed in January 2003. Final design would take approximately one year from the time of a decision to proceed. Construction of a free standing parking structure is estimated to take 18 months. Therefore, it would take an estimated 2 ½ to 3 years to complete this parking structure from the time the project receives final approval. Construction may take longer if the plans include mixed-use opportunities such as housing or office. The program cost estimate for final design, site preparation, project management and construction of the 850-space facility was estimated at approximately \$31.4 million in January 2003.

#### 5. Acquisition of Greyhound Site

As directed by the Council in October 2003, this site was placed fifth on the priority list because it is the preferred site of the Federal Government for their new Court House. The 2002 estimated cost of land acquisition and relocation was \$9.7 million. Acquisition and relocation would take approximately one year from the time it is authorized to proceed.

#### 6. Construction of Greyhound Garage

Schematic design plans for the Greyhound facility were completed in January 2003. Factoring in land acquisition, final design, and construction, it would take an estimated 2 ½ to 3 years to complete this parking structure from the time the project receives final approval. Construction may take longer if the plans include mixed-use opportunities. The program cost estimate for final design, site preparation, project management and construction of the 1,000-space facility was estimated at approximately \$33.7 million in January 2003.

#### **Establishment of Economic and Parking Demand Triggers**

The table below outlines the proposed economic and parking demand triggers. These four triggers would have two sets of milestones, which once met, would (1) initiate site acquisition for a Notre Dame parking facility; and (2) final design and construction.

Triggers	Baseline Spr 2004	1 <sup>st</sup> Trigger Site Acquisition	2 <sup>nd</sup> Trigger Design/Construction
<b><u>Decrease</u></b> in Class "B" Office Vacancy Rates in Downtown	20%	20% to 17%	17% to 10%
<b><u>Increase</u></b> in parking demand and occupancy in City parking facilities	60%	60% to 66%	66% to 80%
<b><u>Increase</u></b> in Parking Fund Revenue above 2003-04 estimated actuals	\$10.06M	2% \$10.06 to \$10.26M	12% \$10.26 to \$11.50 M
<b><u>Increase</u></b> in Tax Increment Revenue	\$167M	0-1%	5%

above 2003-04 estimated actuals		\$167 to \$168.67 M	\$175.35 to \$177.10 M
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The proposed triggers represent the four most fundamental factors that influence public parking demand and occupancy, and ultimately our ability to fund and finance the development, operation, and maintenance of new parking facilities. Each trigger was set to ensure that meaningful changes in economy would be acted upon in timely manner (e.g. to stay in front of the power curve). The first “set” of triggers would initiate land acquisition of the Notre Dame site, and are set much lower than the second “set” of triggers that would initiate final design and construction. The reason for setting the triggers at the levels proposed is to initiate land acquisition at the first sign of economic recovery, with the goal of acquisition no later than 2005-06, yet not creating long-term financial commitments until full economic recovery is occurring.

Staff will monitor the triggers, and depending upon any new developments, be prepared to return to Council/Board at mid-year 2004-05, or during the 2005-06 budget process with recommended next steps in terms of land acquisition.

The first trigger, office occupancy rates, represents the single most important factor that influences daytime parking demand in Downtown. Office occupancy, which approached 100% in early 2001, created parking occupancy close to 100% in the City’s core parking facilities. Currently, the office vacancy rate is about 20%. A reduction in the Class “B” office vacancy rate by 3% represents approximately 92,000 square feet of office space being leased. The increased lease rate would be expected to generate approximately 275 to 300 new parkers. Based upon a review of the Downtown office market, it is not expected that this trigger would be met until sometime in 2005, and it would indicate that some level of economic recovery has begun.

The second trigger represents an increase in parking occupancy in City facilities by 6% (about 300 new parkers). The third trigger, an increase in City parking revenue by 2% over the 2003-04 estimated actual revenues of \$10.06 million, represents an increase of \$200,000 in annual revenue to the \$10.26 million level. The fourth trigger, an increase in SJRA tax increment revenue from 0 to 1% above 2003-04 estimated actual levels of \$167 million would require revenue in the \$167 to \$168.67 million range annually. This last trigger is important based upon the intended approach to jointly finance and develop the Notre Dame parking facility with the City’s Parking Fund and SJRA resources. This partnership would create the highest possible credit rating on any proposed financing structure.

### **Parking Fund Debt Capacity Analysis**

The General Purpose Parking Fund is a special City fund that controls the financial activity of the City’s parking system. Parking revenues are required to be deposited in the Parking Fund pursuant to the terms of the 4<sup>th</sup> and San Fernando bond documents. The Parking Fund is the designated source of repayment of the bonds, in the event the SJRA is unable to make these debt service payments.

The parking system currently consists of 5 parking garages, 16 surface lots, and 2,300 parking meters. The Parking Fund has an operating and capital account, and various reserves. A reserve balance of approximately \$12 million is available for two primary purposes: a pledge for the

repayment of debt in the event the SJRA is unable to make payment on the 4<sup>th</sup> and San Fernando bonds and then capital projects. The 4<sup>th</sup> and San Fernando debt obligation has over 20 years (of \$3.4 million annual payments) until it is retired. It is also important to note that the 4<sup>th</sup> and San Fernando Garage, given its utilization rates and inclusion in the free evening and weekend parking program, has operated at a loss in each of its first two years of operation. We believe that staff should evaluate in the coming year options that can improve the financial performance of the facility, stop the losses, and possibly generate funds to assist on future parking development. The Fund also maintains other legally required and policy based operating and maintenance reserves totaling \$4 million. In addition to ensuring financial stability in a time of uncertainty, the reserves will generate an estimated \$550,000 in revenue in 2003-04.

The Parking Fund's capacity to bond for construction of a parking garage is limited by the annual surplus revenues generated in the parking system, which are estimated at \$2 million in 2003-04. The Parking Fund could potentially support an annual debt payment of \$1.4 million. This would generate a net bonding capacity of approximately \$17 million. The Parking Fund currently includes a reserve balance of approximately \$12 million, which could be combined with bond proceeds to fund additional parking facilities. This is predicated on the SJRA meeting its full debt commitments for 4<sup>th</sup> and San Fernando Garage. Use of the \$12 million of reserves would however reduce annual interest revenues to the Parking Fund by up to \$400,000 a year. Therefore, the combination of reserves and bond proceeds would provide approximately \$29 million to fund additional parking facilities. However, in October 2003, the City's financial adviser concluded:

“The City will be well-advised to delay any parking revenue bond issuance until parking utilization clearly improves.”

This conclusion was based on the following principles: (1) The calculation of debt capacity is a mathematical analysis based on certain economic assumptions about the City's parking system revenues, bond term and interest rates; and (2) The decision of when or how to access that debt capacity through the issuance of bonds is based on a different set of criteria – e.g., the need for a project, the current economic environment, available funding alternatives, availability of bond insurance, debt ratings consistent with the City's debt policies, and other policy considerations.

Since this analysis was completed in October 2003, there has been no noticeable improvement in the Downtown economy and Parking Fund revenues have dropped from the 2002-03 level of \$10.9 million to an estimated \$10.06 million in 2003-04 indicating that the bottom of this economic cycle, as it relates to parking and the Downtown, may not have been reached.

## **CONCLUSION**

The current economic and financial situation of the SJRA and City has required a significant re-evaluation of our ability to implement priority projects in the PMP. Similarly, the reduction in parking demand has reduced the immediate need for implementation of the PMP on previously adopted schedules. Although the basic priorities of the PMP remain sound, a modified, less aggressive implementation framework, based upon relevant triggers, is proposed. The new framework will:



- ❑ Deliver Parking Plus in the CIM project at the 2<sup>nd</sup> and Santa Clara site in the fall of 2005
- ❑ Deliver Parking Plus in the CIM project at the Block 3 site using a HUD loan/grant and ensuring its repayment by creating a secured SJRA account with adequate funding resources
- ❑ Prepare for acquisition of the Notre Dame site using the Parking Fund as soon as the first set of triggers are met, with a report back no later than the 2005-06 budget process
- ❑ Continue monitoring the financial performance of the 4<sup>th</sup> and San Fernando Garage and evaluate options to improve its financial performance and mitigate the losses
- ❑ Continue detailed monitoring of the economic and parking climate to ensure that noticeable changes are responded to in a timely way to ensure long-term availability of parking.

### **PUBLIC OUTREACH**

The Downtown Parking Board discussed the parking triggers at numerous meetings and approved the proposed triggers at its February 2004 meeting. A similar written report has been submitted to the Downtown Parking Board.

### **COORDINATION**

This report has been coordinated with the Departments of Transportation, Finance, the Office of Economic Development, and the City Manager's Budget Office.

### **CEQA**

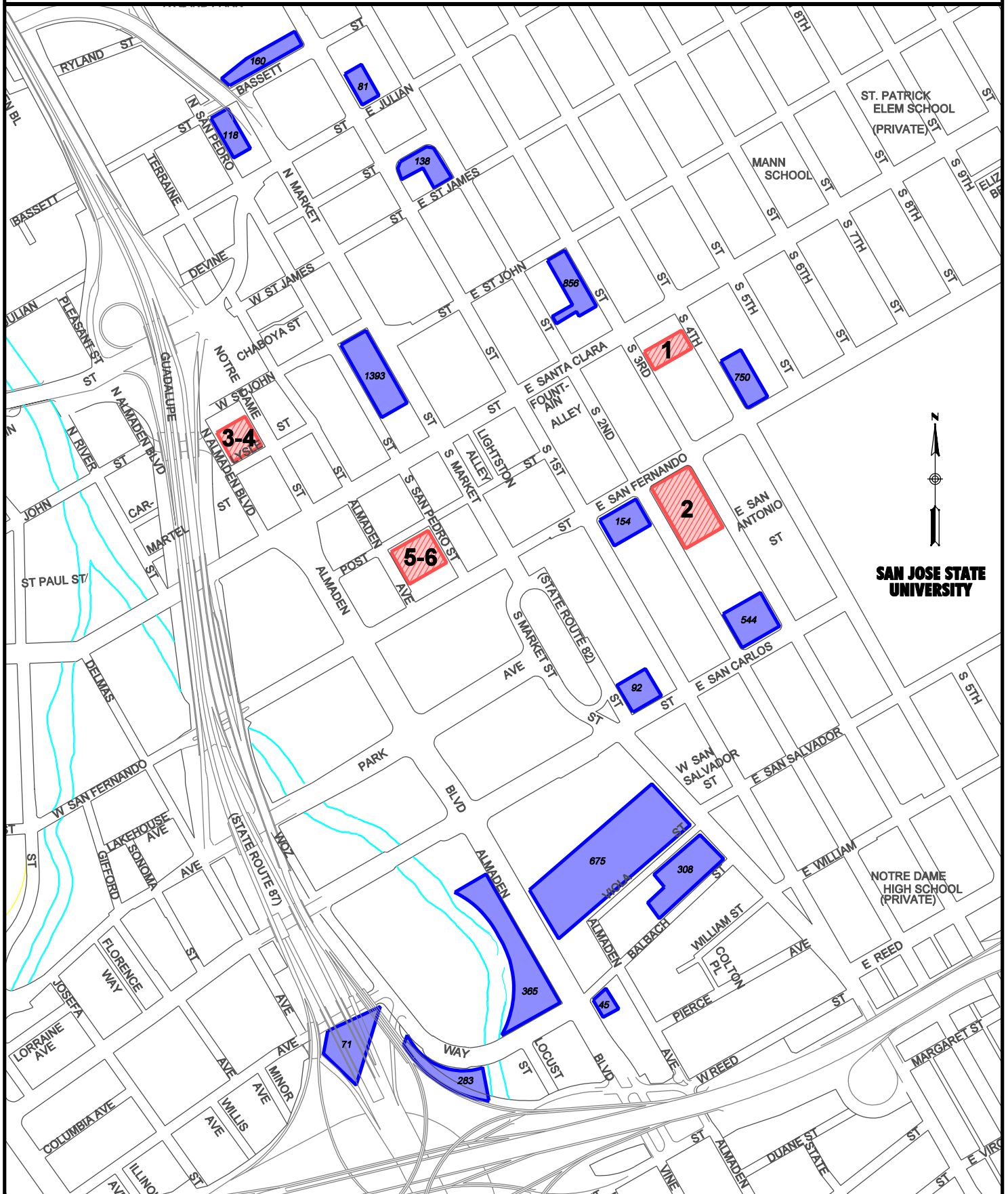
Resolution No. 68839 and Addenda thereto, PP01-11-199.

/s/  
Del D. Borgsdorf  
City Manager

/s/  
Harry S. Mavrogenes  
Interim Executive Director

**ATTACHMENT – Map of Downtown San Jose Public Parking Priorities**

# DOWNTOWN SAN JOSE PUBLIC PARKING PRIORITIES



**EXISTING PUBLIC PARKING**



**FUTURE PUBLIC PARKING PRIORITIES**

**1 - 2ND / SANTA CLARA**

**2 - BLOCK 3**

**3-4 - PROPOSED NOTRE DAME**

**5-6 - PROPOSED GREYHOUND**